



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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May 13, 2009

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

A handwritten signature in blue ink, reading "Wendy L. Watanabe", is written over the printed name and title.

SUBJECT: **FISCAL REVIEW OF AMERICA CARE FOSTER FAMILY AGENCY – A
FOSTER FAMILY AGENCY CONTRACTOR**

Attached is our report on the fiscal operations of America Care Foster Family Agency (America Care or Agency) from January 1, through December 31, 2004. The Department of Children and Family Services (DCFS) contracts with America Care to serve as a Foster Family Agency (FFA) to recruit, train and support foster family homes. The Agency's administrative office is located in the Fifth Supervisorial District.

In 2004, America Care had 150 children placed by Los Angeles County in 52 certified foster homes. DCFS paid the Agency a monthly rate determined by the California Department of Social Services, which requires FFA's to pay their foster parents at least 40% of the funds they receive. America Care received \$1,663,874 in FFA funds from DCFS and paid \$700,914 (42%) of the funds directly to the foster parents.

Scope

The purpose of our review was to determine whether America Care complied with its contract terms and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures. We also evaluated the adequacy of the Agency's expenditure and revenue documentation, internal controls and compliance with applicable federal, State and County fiscal guidelines governing FFA foster care funds.

Summary of Findings

We identified \$8,803 in unallowable costs and \$321,738 in unsupported/inadequately supported costs. The unsupported/inadequately supported costs include \$86,748 in salary payments that were determined to be excessive based on salary levels for comparable positions in the Child Welfare League of America (CWLA) Salary Study. America Care also needs to strengthen its internal controls over its accounting procedures and payroll.

DCFS needs to resolve the questioned costs and collect any disallowed amounts. In addition, DCFS needs to ensure that America Care's management takes action to address the recommendations in this report, and monitor to ensure that the actions result in permanent changes.

Review of Report

We discussed our report with America Care management on August 18, 2008. While the Agency's management agreed that the CWLA study we used was appropriate, they felt that we should have used the maximum salaries listed in the study as our standard, rather than the mean salaries which we normally use in audits of Foster Family Agencies.

The Agency will provide their response to DCFS who will prepare a Fiscal Corrective Action Plan and submit it directly to the Board of Supervisors. We thank America Care's management and staff for their cooperation during our review.

Please call me if you have any questions, or your staff may contact Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS:MWM

c: William T Fujioka, Chief Executive Officer
Patricia S. Ploehn, Director, Department of Children and Family Services
Ted Myers, Chief Deputy Director, Department of Children and Family Services
Susan Kerr, Senior Deputy Director, Department of Children and Family Services
Ramzy Fakhoury, Chief Executive Officer, America Care Foster Family Agency
Board of Directors, America Care Foster Family Agency
Cora Dixon, Bureau Chief, Foster Care Audit Bureau, CA Dept of Social Services
Commission for Children and Families
Public Information Office
Audit Committee

America Care Foster Family Agency
Fiscal Review

REVIEW OF EXPENDITURES/REVENUES

We identified \$8,803 in unallowable costs and \$321,738 in unsupported/inadequately supported costs. Details of these costs are discussed below.

Applicable Regulations and Guidelines

America Care is required to operate its FFA in accordance with the following applicable federal, State and County regulations and guidelines.

- FFA Contract, including Exhibit C, and the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations (Circular)
- California Department of Social Services Manual of Policies and Procedures (CDSS MPP)
- California Code of Regulations, Title 22 (Title 22)

Unallowable Costs

We identified \$8,803 in unallowable FFA expenditures, as follows:

- \$3,803 for health insurance for the CEO's brother, who is not an Agency employee.
- \$1,929 in late payment fees. Penalty and interest payments are not allowable according to Circular A-122 Section 16 and 23.
- \$1,190 for personal telephone calls unrelated to the foster care program.
- \$1,744 in payments to independent contractors; \$1,463 in vacation pay to a contractor and \$281 for services that were not performed.
- \$137 for items that were either expensed twice or an incorrect receipt total was used.

Unsupported/Inadequately Supported Costs

The A-C Handbook states that all expenditures shall be supported by original vouchers, invoices, receipts, timecards, travel logs, contract and loan agreements and/or other documentation, and that unsupported expenditures will be disallowed upon audit.

- \$234,990 in unsupported and inadequately supported expenditures for items such as vehicle expenditures, employee reimbursements, office supplies, advertising, insurance, blueprints, restaurant gift certificates, furniture, toys, clothes, payments to two independent contractors, salary payments to two employees and vacation pay to three employees. The Agency was either unable to provide any supporting documentation, such as itemized receipts indicating what was actually purchased, or the documentation provided was inadequate to establish that the expenditures were reasonable and allowable.
- \$86,748 in excessive salary payments made to three employees. America Care paid salaries that exceeded the salaries in the 2003 Child Welfare League of America salary study. A-C Handbook Section 1.3 states that only those expenditures that are necessary, proper and reasonable to carry out the purposes and activities of the program are allowable.

Recommendations

1. DCFS management resolve the \$330,541 (\$8,803 + \$321,738) in questioned costs and collect any disallowed amounts.
2. America Care management consistently maintain adequate supporting documentation for all foster care expenditures in accordance with the A-C Handbook.

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted that America Care needs to improve its contract compliance and internal controls as discussed below. DCFS should ensure that America Care management takes action to address each of the internal control recommendations in this report and monitor to ensure the actions result in permanent changes.

Accounting Procedures

America Care receives funding for its foster care program from Los Angeles County, Riverside County and San Bernardino County. A-C Handbook Section 2.4 states that separate accounts must be maintained for each county's program expenditures and revenues. America Care does not account for each county's program expenditures and revenues separately. Although we were able to determine the portion of expenditures and revenues related to Los Angeles County for our review period, the Agency needs to ensure that it accounts for each county's expenditures and revenues separately.

Recommendation

3. America Care management ensure each county's program expenditures and revenues are accounted for separately.

Payroll Records

America Care's payroll and personnel procedures controls are not in compliance with Circular 122, CDSS MPP, Title 22 and the A-C Handbook. Specifically, we sampled 101 timecards for eighteen different employees and noted the following:

- Four of eighteen personnel files reviewed (22%) did not contain management's authorized salary amounts or hourly wages. CDSS MPP Section 11-402 requires that supporting documentation be maintained for all program expenditures, including employee salary rates.
- The Agency could not locate 13 timecards (13%). Thirty-six (41%) of the 88 timecards provided were not signed by the employees and 56 (64%) were not signed by a supervisor as required by the A-C Handbook.
- Two employees were not required to complete timecards even though they did not consistently work 40 hours per week. A-C Handbook Section 3.2 states that salaried employees who work less than 40 hours per week shall be paid a salary that corresponds with the employee's work schedule. Without a timecard to document their hours worked, there is no way to ensure that the salary is reasonable and corresponds to employee work schedules.
- America Care does not maintain employee benefit balances. Management indicated that it relies on the records its accountant maintains. However, the accountant does not track benefit hours accrued and used. As a result, America Care cannot ensure that employees are entitled to benefit time taken.

Without proper payroll and personnel controls in place, the Agency cannot ensure payroll expenditures are authorized or accurate.

Recommendations**America Care management:**

- 4. Ensure personnel files contain current management authorized salary amounts or hourly rates of pay.**
- 5. Ensure timecards are maintained for each employee and that the employee and the supervisor sign the timecards.**
- 6. Maintain logs to account for employee benefit balances.**